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DEPOSITS OF COUNTRY BANKS UP MOST SINCE PREWAR

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Deposits of country banks have increased a great deal more since 1940 than have those of banks in either the primary or secondary trade and financial center The period 1940-48 was one of almost continuous inflation. Now that the inflationa upsurge appears to have been arrested, the question arises whether the years ahead are likely to bring a backflow that will cause country banks to lose deposits to banks in the larger centers and possibly affect the ability of country banks to finance farmers and other local borrowers.

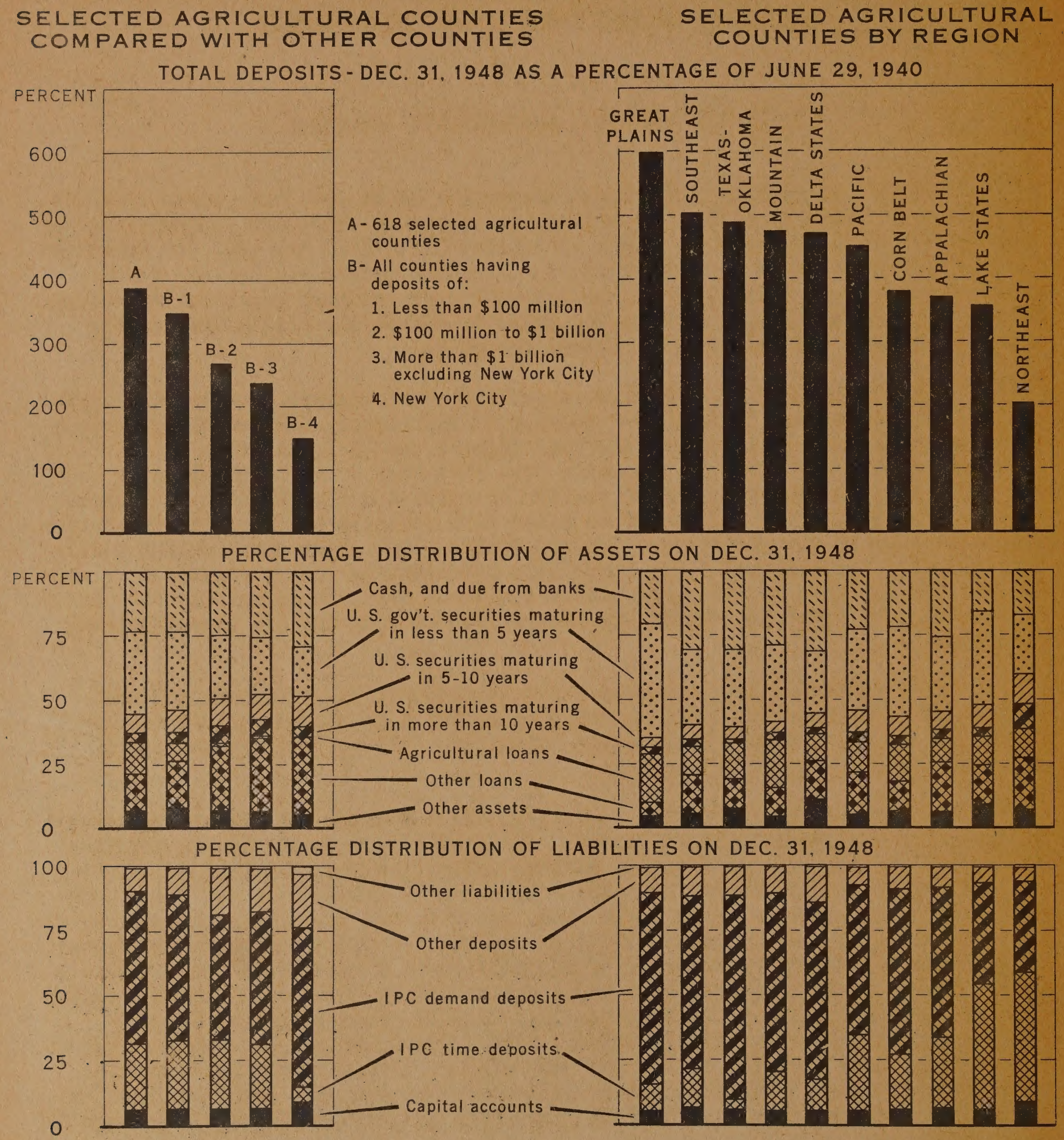
"Country banks," as here used, mean banks that operate in primarily agricultural communities. To show the position of such banks, 618 primarily agricultural counties were selected and the bank figures for these counties tabulated.1/ In nearly all of the counties selected, more than half of the population in 1940 was rural and the county contained no town or city with a population as large as 15,000. However, a few additional counties were selected in order to give better representation to the Pacific and Eastern States. For these counties the requirement was that agricultural loans constitute a relatively large proportion of tota loans. The selected counties are widely scattered over the United States. So fa as possible, at least one county was chosen from each of the 304 crop-reporting districts.

The deposits of these country banks on December 31, 1948, are compared with deposits on June 30, 1940, as shown by column A in the upper left section of figure 1. At the end of 1948 deposits were about 385 percent of the deposits at mid-1940, an increase of 285 percent.

The columns designated B-1, B-2, B-3, and B-4 cover all insured commercial banks in the continental United States. The growth of deposits in all counties which had deposits of less than 100 million dollars on June 30, 1948 - including the 618 selected agricultural counties - is shown by column B-1. As these counties contain no cities of very large size, the data for this group reflect change in the small trade and financial centers. Column B-2 shows the growth of deposit in all counties which had deposits of 100 million to 1 billion dollars on June 30 1948. These counties contain both major and secondary trade and financial center such as Birmingham, Ala.; New Orleans, La.; Memphis, Tenn.; Minneapolis and St. Paul, Minn.; Phoenix, Ariz.; Denver, Colo.; Omaha, Nebr.; Des Moines, Ia.; Cincinnati, Ohio; Buffalo, N. Y., and many others. Deposit growth in counties which had more than 1 billion dollars of deposits on June 30, 1948, is shown by column B-3 - except that for New York City which is shown separately in column B-4

1/ County tabulations of data for insured commercial banks, prepared by the Federa Deposit Insurance Corporation, were used for this purpose. For counties containing branch banks, the data cover only independent banks and branch banks with head offices located in the county.

INCREASE OF BANK DEPOSITS SINCE 1940 AND CONDITION OF BANKS ON DECEMBER 31, 1948, BY TYPE OF COUNTIES



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These counties2/ contain the following major trade and financial centers: Chicago, Ill.; San Francisco and Los Angeles, Calif.; Boston, Mass.; Detroit, Mich.; St. Louis and Kansas City, Mo.; Newark, N. J.; Cleveland, Ohio; Portland, Oreg.; Philadelphia and Pittsburgh, Pa.; Dallas and Houston, Tex.; Seattle, Wash.; Milwaukee, Wis.; and Washington, D. C.

Increases in deposits from 1940 to 1948 apparently were inversely related to the degree of industrialization and commercialization in an area. In New York City the growth was only about 50 percent; in counties containing other major trade and financial centers it was about 135 percent; and in counties having deposits of 100 million to 1 billion dollars on June 30, 1948, it was about 165 percent. These growth rates are considerably below the rate in counties that contain only small towns and cities (250 percent), particularly the primarily agricultural counties (285 percent).

Marked differences also appear among the primarily agricultural counties, as shown by the upper right section of figure 1. The growth of deposits was about 500 percent in the Great Plains as compared with only 100 percent in the Northeastern States, which include the New England and North Atlantic census regions. However, the primarily agricultural counties in all parts of the country, except the Northeast, had a greater growth of deposits than had counties that contain either primary or secondary trade centers.

The comparison among various classes of counties might be slightly more accurate if end-of-year figures for both years were used, but no county data as to total deposits are available for December 31, 1940, and in any event the differences would not be large.

Doubtless there are many reasons for these differences in the growth of deposits. Some facts that may explain them are known. For example, it is known that farm income increased relatively more from 1940 to 1948 than did national income and that farmers' holdings of liquid financial assets (currency, bank deposits, and United States savings bonds) increased relatively more than did the holdings of all individuals and businesses in the United States. This would be consistent with the greater growth of deposits in the agricultural communities and in the smaller trade and financial centers that serve farmers. It is known also that gross farm income increased less in the Northeastern States than in any other region, and that bumper wheat crops at high prices have meant an unusually great increase in farm income in the Great Plains.

Whatever the reasons, it must be recognized that a noteworthy change in the pattern of ownership of bank deposits has taken place since 1940. From this change grass roots areas have benefited more than have the larger trading and financial centers. It may be significant that this change occurred during a period of almost continuous inflation, when prices of farm products and of many other raw materials were outdistancing salary and wage rates and prices of manufactured goods.

What is to happen now that the inflationary upsurge appears to have ended and prices of raw materials have dropped sharply? Is another period of change

2/ Includes District of Columbia and independent city of St. Louis, Mo.

beginning which will cut into the gains of the grass roots areas and improve the relative position of the larger trading and financial centers?

This could happen, as it did during the years of recession following 1920 and 1929, when deposits flowed in large volume from the agricultural areas to the financial centers. However, the possibility of such a change does not depend upon another recession. It could be brought about by a movement toward more normal price relationships as between the products of farm and city such as is now taking place. Moreover, it could be brought about by a relatively greater expansion of industry and commerce than of agriculture in the years ahead. The long-run trend is in this direction. Its effects upon deposit ownership, however, could be modified by greater decentralization of industry, which would enable the smaller towns and cities to share to a greater extent in the gains from industrialization.

In view of these possibilities, it is reassuring that country banks in all regions are strongly fortified with highly liquid assets such as cash reserves and Federal securities maturing in less than 5 years (middle sections of figure 1). Banks in the selected agricultural counties and in other grass roots areas are somewhat more strongly fortified in this respect than are banks in the larger trading and financial centers. Moreover, the degree of preparedness among the banks in the selected agricultural counties, appears to bear some relation to the extent of their increases in deposits. Banks of the Great Plains hold about 65 percent of their assets in these forms as compared with about 40 percent for banks in the Northeast.

The situation in this respect is reassuring, not only because banks in the agricultural areas should be able to meet their liabilities even if a considerable outflow of deposits from these areas develops, but also because they should be able to meet such outflows without pressing for collection of loans. One of the worst features of periods in the past when deposits have shrunk in the agricultural areas has been the pressure that developed for liquidation of loans. Often this pressure was directed against the more solvent borrowers because they were the ones who could pay. But also they were often the ones who could use credit more effectively in maintaining employment and business volume. Hence the effects of such pressure were to inconvenience and, in many cases, to greatly handicap the borrowers concerned. In addition, a generally depressing influence was exerted on the economy of the locality and the Nation. Unless something very drastic occurs, it does not appear that the banks or the Nation are again in danger of having a policy of this kind forced upon them.

Yet the possibility of such a thing occurring, with serious consequences in the trade territories of some banks and with at least unhealthful consequences in some large areas, should not be overlooked. This is particularly true of an area like the Great Plains which only a few years ago not only suffered with other areas from depression but also had its difficulties compounded by devastating droughts. If the recent good crop years in this area should be followed by a return of protracted drought, the liquid assets of the area could be drained off rapidly. Farmers in the Great Plains appear to be aware of such a possibility. They have built up their bank deposits to an unusually high level and they have also been among the largest purchasers of United States savings bonds.